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STATE OF MONTANA
ENVIRONMENTAL QUALITY COUNCIL

FINANCIAL-COMPLIANCE AUDIT FOR THE
TWO FISCAL YEARS ENDED JUNE 30, 1993

PERFORMED UNDER CONTRACT BY:

JAMES J. WOSEPKA
CERTIFIED PUBLIC ACCOUNTANT

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ENVIRONMENTAL QUALITY COUNCIL

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TWO FISCAL YEARS ENDED JUNE 30, 1993

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STATE OF MONTANA
Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
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JAMES GILLET
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

November 1993

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Environmental Quality
Council for the two fiscal years ended June 30, 1993.

The audit was conducted by James J. Wosepka, CPA, under a contract
between the firm and our office. The comments and recommendations
contained in this report represent the views of the firm and not
necessarily the Legislative Auditor.

The agency's written response to the report recommendations is
included in the back of the audit report.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Scott A. Seacat".

Scott A. Seacat
Legislative Auditor

TABLE OF CONTENTS

| | <u>PAGE</u> |
|--|-------------|
| Elected and Appointed Officials | ii - iii |
| Introduction | 1 |
| Background | 1 |
| Internal Control | 1-2 |
| Prior Report Recommendations | 2 |
| Current Audit Recommendations | 2 |
| State Compliance | 2 |
| Auditor's Report | 3 |
| Schedule of Agency Financial Activity: | |
| Schedule of Changes in Fund Balance for the Two Fiscal Years Ended June 30, 1993 | 4-5 |
| Schedule of Program Expenditures by Object for the Fiscal Years Ended June 30, 1993 | 6-7 |
| Notes to the Financial Schedules | 8-9 |
| Agency Responses | 10 |

ELECTED AND APPOINTED OFFICIALS
ENVIRONMENTAL QUALITY COUNCIL
1991-1993

SENATORS

David Rye, Billings
Steve Doherty, Great Falls
Jerry Noble, Great Falls
Bill Yellowtail, Wyola

REPRESENTATIVES

Jerry Driscoll, Billings
David Hoffman, Sheridan
Ed Grady, Canyon Creek
Bob Raney, Livingston

PUBLIC MEMBERS

Doug Crandall, Livingston
Helen Waller, Circle
Mona Jamison, Helena
John Fitzpartick, Helena

Art Wittich, Governor's Representative
Deborah Schmidt, Director

1993-1995

SENATORS

Steve Doherty, Great Falls
Lorents Grosfield, Big Timber
Dave Rye, Billings
Bill Yellowtail, Wyola

REPRESENTATIVES

Jody Bird, Superior
Dick Knox, Winfred
Vickie Cocchiarella, Missoula
Scott Orr, Libby

PUBLIC MEMBERS

Bob Boeh, Whitefish
Jeanne-Marie Souvigney, Livingston
Jerry Noble, Great Falls
Gregory Tollefson, Missoula

Glen Marx, Governor's Representative
Deborah Schmidt, Director

WATER POLICY COMMITTEE MEMBERS

1991-1993

SENATORS

Esther Bengtson, Shepard
Tom Beck, Deer Lodge
Lawrence G. Stimatz, Butte
Lorents Grosfield, Big Timber

REPRESENTATIVES

Vivian M. Brooke, Missoula
Russell Fagg, Billings
Hal Harper, Helena
Tom Lee, Bigfork

1993-1995

SENATORS

Don Bianchi, Belgrade
Bob Hackett, Harve
Kenneth Mesaros, Cascade
Bernie Swift, Hamilton

REPRESENTATIVES

Hal Harper, Helena
Russell Fagg, Billings
Vernon Keller, Fishtail
Angela Russell, Lodge Grass

INTRODUCTION

I performed a financial-compliance audit of the Environmental Quality Council for the two fiscal years ended June 30, 1993. The objectives of the audit were to: (1) determine if the financial schedules present fairly the council's results of operations for the two fiscal years ended June 30, 1993; (2) determine if the council complied with applicable laws and regulations; and (3) make recommendations for improvement in the management and internal controls of the council.

I thank the staff of the Environmental Quality Council for their cooperation and assistance during my audit.

BACKGROUND

The Environmental Quality Council was established by the Extraordinary Session of the 42nd Legislature in 1971 to implement provisions of the Montana Environmental Policy Act (MEPA - Title 75, Chapter 1, MCA). The council functions as an arm of the Legislature, with the role of anticipating and analyzing the causes of environmental problems and recommending solutions to those problems. The Council also insures that state environmental policy is consistently observed by all state agencies that are concerned with environmental matters. The Legislature assigns interim studies relating to natural resources and economic development to the Council. The Council also assists the Legislature by staffing natural resource committees during the legislative sessions.

INTERNAL CONTROL

I have examined the financial schedules of the Environmental Quality Council for the two fiscal years ended June 30, 1993. I issued my opinion dated September 24, 1993 on these schedules. As part of my examination, I made a study and evaluation of the Council's control system. My study evaluated the system as required by generally accepted governmental auditing standards for financial compliance audits. I classified the controls in the following categories:

1. Expenditures/liabilities;
2. Property, plant, and equipment; and
3. Payroll.

My study included the control categories listed above. I applied alternative audit tests to property, plant, and equipment as I determined it was more efficient to expand substantive testing for this area. Through my study, I determined the nature, timing, and extent of my auditing procedures. I did not evaluate the control system to the extent necessary to give an opinion on either individual segments or system as a whole.

The management of the Environmental Quality Council is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related cost of control procedures. The objectives of a system are to provide management with reasonable assurance that: (1) assets are safeguarded against loss from unauthorized use or disposition; (2) transactions are executed in accordance with management's authorization; and (3) transactions are recorded properly to permit the preparation of financial schedules in accordance with state accounting policies. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of my study described in the first paragraph would not necessarily disclose all material weakness in the system. Accordingly, I do not express an opinion on the system of controls used by the Environmental Quality Council.

This report is intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of the document which, upon presentation to the Legislative Audit Committee, is a matter of public record.

PRIOR AUDIT RECOMMENDATIONS

The Environmental Quality Council was last audited for the fiscal years ended June 30, 1990 and 1991, under contract through the Office of the Legislative Auditor. There was one audit recommendations for that audit period. The recommendation has been implemented.

CURRENT AUDIT RECOMMENDATIONS

None

STATE COMPLIANCE

I reviewed compliance with state laws that could have a material impact on the financial schedules of the Council. In my opinion, the Council complied with the state laws and regulations tested. Nothing came to my attention that causes me to believe untested compliance issues are not in accordance with applicable laws and regulations.

INDEPENDENT AUDITOR'S REPORT
AND SCHEDULES OF AGENCY FINANCIAL ACTIVITY

JAMES J. WOSEPKA

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INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
Of the Montana State Legislature:

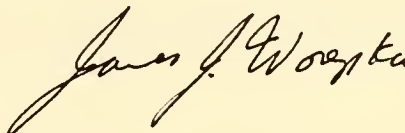
I have audited the financial schedules of the Office of the Environmental Quality Council for each of the two fiscal years ended June 30, 1992 and 1993, as listed in the table of contents. These financial schedules are the responsibility of the office's management. My responsibility is to express an opinion on these financial schedules based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the management, as well as evaluating the overall financial schedule presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1 to the financial schedules, the office's financial schedules are prepared in accordance with state accounting policy and are not intended to be a presentation in conformity with generally accepted accounting principles.

In my opinion, the financial schedules referred to in paragraph one present fairly, in all material respects, the results of operations and changes in fund balances of the Office of the Environmental Quality Council for each of the two fiscal years ended June 30, 1992 and 1993, in conformity with the basis of accounting described in Note 1.

Baker, Montana
September 24, 1993



ENVIRONMENTAL QUALITY COUNCIL
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 1992

| | <u>General Fund</u> | <u>Special Revenue Funds</u> |
|---------------------------------------|-------------------------|--------------------------------------|
| FUND BALANCE: July 1, 1991 | \$ <u>0</u> | \$(<u>2,212</u>) |
| ADDITIONS | | |
| Prior Year Expenditure Adjustments | | |
| Support From State of Montana | 278,112 | |
| Cash Transfers In | | <u>12,894</u> |
| Total Additions | <u>278,112</u> | <u>12,894</u> |
| REDUCTIONS | | |
| Budgeted Expenditures & Transfers Out | <u>278,112</u> | <u>10,921</u> |
| Total Reductions | <u>278,112</u> | <u>10,921</u> |
| FUND BALANCE: June 30, 1992 | \$ <u><u>0</u></u> | \$(<u><u>239</u></u>) |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 8 and 9.

ENVIRONMENTAL QUALITY COUNCIL
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 1993

| | <u>General Fund</u> | <u>Special Revenue Funds</u> |
|---------------------------------------|-------------------------|--------------------------------------|
| FUND BALANCE: July 1, 1992 | \$ <u>0</u> | \$ (<u>239</u>) |
| ADDITIONS | | |
| Prior Year Expenditure Adjustments | | |
| Support From State of Montana | 263,655 | |
| Nonbudgeted Revenue & Transfers In | | 26,589 |
| Cash Transfers In | | <u>9,547</u> |
| Total Additions | <u>263,655</u> | <u>36,136</u> |
| REDUCTIONS | | |
| Budgeted Expenditures & Transfers Out | <u>263,655</u> | <u>27,768</u> |
| Total Reductions | <u>263,655</u> | <u>27,768</u> |
| FUND BALANCE: June 30, 1993 | \$ <u><u>0</u></u> | \$ <u><u>8,129</u></u> |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 8 and 9.

ENVIRONMENTAL QUALITY COUNCIL
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY
OBJECT AND FUND BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1992

| | <u>Environmental Quality Council</u> | <u>Water Policy Committee</u> | <u>Total</u> |
|---------------------------------|--|---------------------------------------|-------------------|
| PERSONAL SERVICES | | | |
| Salaries | \$ 192,567 | \$ 2,258 | \$ 194,825 |
| Other Compensation | 1,750 | | 1,750 |
| Employee Benefits | 42,596 | 192 | 42,788 |
| Total | <u>236,913</u> | <u>2,450</u> | <u>239,363</u> |
| OPERATING EXPENSES | | | |
| Other Services | 11,570 | 3,448 | 15,018 |
| Supplies & Materials | 1,722 | | 1,722 |
| Communications | 8,139 | 1,299 | 9,438 |
| Travel | 10,484 | 3,724 | 14,208 |
| Rent | 32 | | 32 |
| Repair & Maintenance | 928 | | 928 |
| Other Expenses | 4,169 | | 4,169 |
| Total | <u>37,044</u> | <u>8,471</u> | <u>45,515</u> |
| EQUIPMENT AND INTANGIBLE ASSETS | | | |
| Equipment | 4,101 | | 4,101 |
| Intangible Assets | 54 | | 54 |
| Total | <u>4,155</u> | | <u>4,155</u> |
| TOTAL PROGRAM EXPENDITURES | \$ <u>278,112</u> | \$ <u>10,921</u> | \$ <u>289,033</u> |
| GENERAL FUND | | | |
| Budgeted | \$ 289,278 | | \$ 289,278 |
| Actual | <u>278,112</u> | | <u>278,112</u> |
| Unspent Budget Authority | \$ <u>11,166</u> | | \$ <u>11,166</u> |
| SPECIAL REVENUE FUND | | | |
| Budgeted | \$ 31,058 | \$ 25,393 | \$ 56,451 |
| Actual | <u>31,058</u> | <u>10,921</u> | <u>10,921</u> |
| Unspent Budget Authority | \$ <u>31,058</u> | \$ <u>14,472</u> | \$ <u>45,530</u> |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on page 8 and 9.

ENVIRONMENTAL QUALITY COUNCIL
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY
OBJECT AND FUND BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1993

| | <u>Environmental Quality Council</u> | <u>Water Policy Committee</u> | <u>Total</u> |
|---------------------------------|--|---------------------------------------|-------------------|
| PERSONAL SERVICES | | | |
| Salaries | \$ 182,907 | \$ 2,384 | \$ 185,291 |
| Other Compensation | 1,076 | | 1,076 |
| Employee Benefits | <u>41,549</u> | <u>208</u> | <u>41,757</u> |
| Total | <u>225,532</u> | <u>2,592</u> | <u>228,124</u> |
| OPERATING EXPENSES | | | |
| Other Services | 36,970 | 2,082 | 39,052 |
| Supplies & Materials | 1,981 | | 1,981 |
| Communications | 5,090 | 767 | 5,857 |
| Travel | 5,970 | 4,307 | 10,277 |
| Repair & Maintenance | 2,057 | | 2,057 |
| Other Expenses | <u>1,575</u> | | <u>1,575</u> |
| Total | <u>53,643</u> | <u>7,156</u> | <u>60,799</u> |
| EQUIPMENT AND INTANGIBLE ASSETS | | | |
| Equipment | <u>2,500</u> | | 2,500 |
| Total | <u>2,500</u> | | <u>2,500</u> |
| TOTAL PROGRAM EXPENDITURES | \$ <u>281,675</u> | \$ <u>9,748</u> | \$ <u>291,423</u> |
| GENERAL FUND | | | |
| Budgeted | \$ 279,020 | | \$ 279,020 |
| Actual | <u>263,655</u> | | <u>263,655</u> |
| Unspent Budget Authority | \$ <u>15,365</u> | | \$ <u>15,365</u> |
| SPECIAL REVENUE FUND | | | |
| Budgeted | \$ 30,000 | \$ 14,472 | \$ 44,472 |
| Actual | <u>18,020</u> | <u>9,748</u> | <u>27,768</u> |
| Unspent Budget Authority | \$ <u>11,980</u> | \$ <u>4,724</u> | \$ <u>16,704</u> |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 8 and 9 .

ENVIRONMENTAL QUALITY COUNCIL

NOTES TO THE FINANCIAL SCHEDULES
JUNE 30, 1992 AND 1993

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Environmental Quality Council utilizes the modified accrual basis of accounting which is described in the Montana Operations Manual.

Under the modified accrual basis of accounting, a valid obligation exists when the related liability is incurred except for the following items which are also considered valid obligations under state accounting policy.

- If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.
- The anticipated cost of equipment is expensed in the fiscal year in which budgeted.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.
- Obligations for employees' vested leave and sick leave are recorded as expenditures when paid.

Basis of Presentation

The financial schedules were prepared from Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to State law. The following fund types are used by the office:

General - accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Legislative appropriation is required to spend from this fund.

ENVIRONMENTAL QUALITY COUNCIL

NOTES TO THE FINANCIAL SCHEDULES (CONT.) JUNE 30, 1992 AND 1993

Vacation and Sick Leave

Employees are paid for 100 percent of unused vacation and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for vacation and sick leave are not reflected in the financial schedules of the Environmental Quality Council. Expenditures for termination pay currently are absorbed in the annual operational costs of the council. At June 30, 1992 and 1993, the council had liability for compensated absences of \$27,129 and \$33,094 respectively.

2. PENSION PLAN

Employees are covered by Montana Public Employees' Retirement System (PERS). The council's contributions to the plan are shown below:

| Fiscal Year | Fiscal Year |
|-------------|-------------|
| <u>1992</u> | <u>1993</u> |
| \$ 12,132 | \$ 11,822 |

3. GENERAL FUND BALANCE

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund as long as they stay within their appropriation limits. Thus, on an agency schedule, the General Fund beginning and ending fund balance will always be zero.

4. SPECIAL REVENUE FUND BALANCE

The special revenue fund is used for water policy expenditures. It is restricted to an appropriation limit. The negative balance in the fund results from a timing difference with the Statewide Accounting and Budgeting System. Expenditure after June 30 of a fiscal year but charged to the prior fiscal year as an expenditure do not appear as a cash transaction but do appear as an expenditure and a liability. This results in a negative fund balance.

AGENCY RESPONSES



STATE OF MONTANA
ENVIRONMENTAL QUALITY COUNCIL

STATE CAPITOL
HELENA, MONTANA 59620
(406) 444-3742

Deborah B. Schmidt, Executive Director

GOV. MARC RACICOT
Designated Representative
Glenn Merx

HOUSE MEMBERS
Joann T. "Jody" Bird
Vicki Cocchiarella
Dick Knox
Scott Orr

SENATE MEMBERS
Steve Doherty
Lorents Grosfield
Dave Rye
Bill Yellowtail, Chair

PUBLIC MEMBERS
Bob Boeh
Jerry Noble, Vice-Chair
Jeanne-Marie Souvigney
Gregory Tollefson

October 26, 1993

James J. Wosepka, CPA
P. O. Box 602
Baker, MT 59313

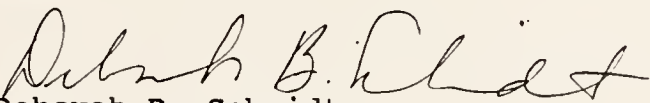
Dear Mr. Wosepka:

This letter is the Environmental Quality Council's official acceptance of the draft financial compliance audit report for the two fiscal years ended June 30, 1993.

The report has been reviewed and there are no comments on its contents.

Thank you for your efforts to ensure the soundness of EQC's financial accounting system. Please let me know if you have any further questions concerning the audit.

Very truly yours,


Deborah B. Schmidt
Executive Director

DBS:ee

